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IN THE

Supreme Court of the United States

October Term, 1979
No. 79-519

HANDGARDS, INC.,

Petitioner,

vs.

ETHICON, INC.,

Respondent.

Brief of Petitioner/Cross-Respondent Handgards, Inc., in Opposition to Cross-Petitioner's Petition for Writ of Certiorari.

BLECHER, COLLINS & HOECKER,
MAXWELL M. BLECHER,
CONSUELO S. WOODHEAD,
612 South Flower Street, Suite 800,
Los Angeles, Calif. 90017,

KENDRICK, NETTER & BENNETT,
JOEL R. BENNETT,
NANCY MILLER BENETT,
612 South Flower Street, Suite 600,
Los Angeles, Calif. 90017,

Attorneys for Petitioner Handgards, Inc.

Parker & Son, Inc., Law Printers, Los Angeles. Phone 724-6622

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I
Preliminary Statement.

Cross-petitioner, Ethicon, Inc. ("Ethicon"), presents three questions for this Court to decide. None of the three, independently or collectively, merit this Court's consideration at this time or on this record.

II
Reasons for Denying the Writ Sought by Ethicon.

A. Ethicon's Assertion That No Antitrust Violation Can Be Predicated on Knowingly Enforcing an Invalid Patent Is Insupportable.

Throughout this litigation, and even now, Ethicon has maintained that this Court's decision in *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965), and its earlier decision

in *Virtue v. Creamery Package Manufacturing Co.*, 227 U.S. 8 (1913), establish the position that (1) antitrust liability cannot be predicated on an attempt to enforce a patent with knowledge of its invalidity and (2) antitrust liability can be found *only* if the patent was originally procured by fraud.

This Court, although not presented with the issue squarely, has already twice suggested that this position is insupportable. First, in *Walker Process* the Court stated that its conclusion that a fraudulent procurement of a patent could lead to antitrust liability ". . . applies with equal force to an assignee who maintains and enforces the patent with knowledge of the patent's infirmity." 382 U.S. at 177 n.5. While this statement conceivably could be read as limited to assigned patents procured by fraud on the patent office, it makes absolutely no sense to do so because no public policy is served by distinguishing patentees who procure invalid patents from those who enforce them knowing of their invalidity. Indeed, no public policy is served by permitting any suit based on a patent which is *known* by the holder to be invalid regardless of the reasons for the invalidity. There is, therefore, not even the slightest suggestion in *Walker Process* that the Court intended to limit private antitrust actions in the patent field only to those cases where the patent was procured by fraud.

Second and more recently, Mr. Justice Stevens in the dissent in which three other Justices concurred in *Vendo Co. v. Lektro-Vend Corp.*, 97 S.Ct. 2881 (1977), observed: "Thus, the attempt to enforce a patent obtained by fraud, *or a patent known to be invalid for other reasons,* may constitute an independent violation of the Sherman Act. . . ." *Id.* at 2897.

(Stevens, J., dissenting) (footnotes omitted; emphasis added).[1] Neither the plurality, which decided the case on procedural grounds, nor the concurring opinion took any issue with this description of the substantive law.

In the real world, the anticompetitive effect of enforcing a patent procured by fraud and one *known* to be invalid for some other reason, *e.g.*, prior invention, prior sale, is precisely identical. Likewise, in the real world, the timing of a patent holder's discovery of the invalidity of his patent in itself has absolutely no bearing on the injury inflicted by an attempt to enforce it. Handgards, for example, was not any less injured because Ethicon discovered the invalidity of the Gerard patent after it had been accepted by the patent office than it would have been had invalidating circumstances been discovered and concealed while the patent was being prosecuted there. The critical fact, accepted by the jury, is that the invalidity was discovered and was known at the time of the attempt to enforce the patent. There is accordingly no logical, legal or economic basis for holding that private antitrust suits may be based upon attempts to enforce patents procured by fraud but not upon attempts to enforce patents *known* to be invalid for some other reasons.

The 1913 case of *Virtue v. Creamery Package Manufacturing Co., supra,* in no way contravenes this conclusion. The issue in that case was whether separate patent suits brought by different, non-related companies were "part of the more comprehensive plan and scheme to secure a monopoly in the United States of the business of making and selling creamery supplies. . . ."

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[1]The Court cited *MacGregor v. Westinghouse Co.*, 329 U.S. 402 (1947), to support this conclusion.

(227 U.S. at 37), *i.e.*, whether two companies *conspired* to bring the suits as a part of a broader scheme of monopolization. A jury found in favor of defendants, and both the trial court and the court of appeals, reviewing the evidence, found no reason to set that determination aside. Neither did this Court, which emphasized that the issue of conspiracy was dispositive. "There was no liability asserted in the circuit court or in the circuit court of appeals against one of the defendants separately from the others. Concert and co-operation was asserted against all, and a ruling was not invoked as to the separate liability of either." *Id.* at 38.

The present case is quite different because here a ruling was invoked as to the separate liability of Ethicon and the jury upheld the claim of independent liability against Ethicon. For this reason alone, *Virtue* has no application here. Moreover, *Virtue* does not intimate, much less hold, that single firm conduct of the kind involved here is outside the scope of antitrust protection. And even if it did, such a view could not be squared with *Walker Process* which subsequently held that single firm conduct in enforcing a patent known to be invalid did indeed, given the other elements of a Sherman 2 violation, offend the antitrust laws.

We respectfully submit that Ethicon's hypertechnical distinction between one deliberate enforcer of an invalid patent and another is a specious one which does not merit this Court's attention.

B. The First Amendment Issues Are Spurious and, in Any Event, Are Not Ripe for Review at This Time on This Record.

Ethicon's contention that its enforcement of a patent which it knew was invalid was an activity protected by the First Amendment is, on its face, a bold attempt to clothe purposeful misuse of the judicial process with a cloak of constitutional dignity. The argument raised by Ethicon is almost self-refuting and, in any event, is not ripe for review.

Speaking for the majority of the panel below, Judge Sneed recognized both of these points:

> Our opinion treats "infringement actions initiated and conducted in bad faith," established in the manner we require, as violative of Section 2 of the antitrust law. When so established, it would be strange to then hold that nonetheless a *Franchise Realty* immunity might exist. *In any event, this is an issue that the present record does not require us to address.*

Handgards, Inc. v. Ethicon, Inc., 601 F.2d 986, 995 n.16 (9th Cir. 1979) (emphasis added).

Even Judge Kennedy, who gratuitously advanced the possibility that the Ninth Circuit decision in *Franchise Realty Interstate Corp. v. San Francisco Local Joint Executive Board of Culinary Workers*, 542 F.2d 1076 (9th Cir. 1976), *cert. denied*, 430 U.S. 940 (1977), might afford immunity against this kind of antitrust suit, concluded with the observation that this determination was "best left for a later decision when the point has been specifically raised by the parties." 601 F.2d at 999 (Kennedy, J., concurring) (footnote omitted). In a footnote appended to that statement,

Judge Kennedy pointedly added that in its appeal to the Ninth Circuit, Ethicon "expressly declined to rely on *California Motor Transport* . . . ." *Id.* at 999 n.1.

The truth of the matter is that not until the Ninth Circuit issued its original opinion in which Judge Kennedy raised the First Amendment "immunity" question did Ethicon, at any stage below, present that question for resolution. In other words, the issue that Ethicon now contends is such a burning constitutional question is one which it either did not perceive or chose not to pursue (because of its obvious weakness) until after the Ninth Circuit made mention of it. Thus, this issue, which Ethicon now seeks to bring before this Court, is presented (a) without any prior decision by the lower courts upon briefing by the parties and (b) purely as a claim of inconsistency between decisions *within* a single circuit, a circuit which does not itself agree that such an inconsistency exists. Until both the district court and the Ninth Circuit Court of Appeals have had an opportunity to deal with the alleged immunity question and make appropriate determinations, we submit that it is not ripe for review by this Court.

Furthermore, *Franchise Realty* was a pleading case which addressed the degree of specificity required for asserting an antitrust claim based on sham proceedings, specifically prior proceedings before a local administrative agency. Even as a pleading case, *Franchise Realty* has not taken root outside the Ninth Circuit. In *MCI Communications Corp. v. American Telephone & Telegraph Co.*, 462 F.Supp. 1072, 1102 (N.D. Ill. 1978),[2]

[2]A subsequent order of the court on an unrelated matter was affirmed on appeal *sub nom. American Telephone & Telegraph Co. v. Grady*, 594 F.2d 594 (7th Cir.) (*per curiam*), *cert. denied*, 99 S.Ct. 1533 (1979).

Judge Grady directly disavowed the force of that decision: "Insofar as *Franchise Realty* imposes a greater burden of pleading particularly on a litigant alleging 'sham' activities than does Rule 8, we must respectfully disagree with the Ninth Circuit's conclusion and observe that at present this strict rule of pleading is not the law in this Circuit." *Id.*

Indeed, it now seems clear that *Franchise Realty* read this Court's decision in *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972), far too narrowly to reach a proper accommodation between vexatious litigation as a means of violating the antitrust laws and the protections afforded by the First Amendment. Whatever doubt might have existed on that score has effectively been dispelled by at least those Justices who concurred with Mr. Justice Stevens' observations in *Vendo Co. v. Lektro-Vend Corp.* that "the attempt to enforce a patent known to be invalid for other reasons, may constitute an independent violation of the Sherman Act . . . ." 97 S.Ct. at 2897 (Stevens, J., dissenting) (footnotes omitted).

Ethicon's assertion that a competitor injured by bad faith litigation needs a multiplicity of suits before he can assert any antitrust claim is similarly misplaced. Such a requirement would eviscerate antitrust enforcement particularly in cases like this one where there was only one competitor and only one suit was needed to stifle ongoing competition altogether. And contrary to Ethicon's suggestion, this Court has never adopted such a harsh, limiting requirement. Indeed, while two Justices, concurring in the result in *Lektro-Vend*, have endorsed a multiple proceedings requirement, the plurality in *Lektro-Vend* did not reach the issue and the four dissenters vigorously disagreed, noting that:

Unlike the plurality which would draw a distinction between ongoing litigation and future litigation, *ante,* at 2889 n. 6, Mr. Justice BLACKMUN differentiates between a violation committed by a multiplicity of lawsuits and a violation involving only one lawsuit. The very case on which he relies rejects that distinction. In *California Motor Transport Co. v. Trucking Unlimited,* the Court stated:

> "Yet unethical conduct in the setting of the adjudicatory process often results in sanctions. Perjury of witnesses is one example. Use of a patent obtained by fraud to exclude a competitor from the market may involve a violation of the antitrust laws, as we held in *Walker Process Equipment v. Food Machinery & Chemical Corp.,* 382 U.S. 172, 175-177, 86 S.Ct. 347, 349-350, 15 L.Ed.2d 247. Conspiracy with a licensing authority to eliminate a competitor may also result in an antitrust transgression. *Continental Ore Co. v. Union Carbide & Carbon Corp.,* 370 U.S. 690, 707, 82 S.Ct. 1404, 1414, 8 L.Ed.2d 777; *Harman v. Valley National Bank,* 339 F.2d 564 (CA9 1964). Similarly, bribery of a public purchasing agent may constitute a violation of § 2(c) of the Clayton Act, as amended by the Robinson-Patman Act. *Rangen, Inc. v. Sterling Nelson & Sons,* 351 F.2d 851 (CA9 1965).
>
> There are many other forms of illegal and reprehensible practice which may corrupt the administrative or judicial processes and which may result in antitrust violations." 404 U.S. 508, at 512-513, 92 S.Ct. 609, 613, 30 L.Ed.2d 642.

Each of the examples given in this excerpt from the California Motor Transport opinion involves a single use of the adjudicatory process to violate the antitrust laws. Manifestly, when Mr. Justice Douglas wrote for the Court in that case and described "a pattern of baseless, repetitive claims," id., at 513, 92 S.Ct., at 613, as an illustration of an antitrust violation, he did not thereby circumscribe the category to that one example. Nothing in his opinion even remotely implies that there would be any less reason to enjoin the "[u]se of a patent obtained by fraud to exclude a competitor from the market," *id.,* at 512, 92 S.Ct., at 613, for example, than to enjoin the particular violation before the Court in that case.

Vendo Corp. v. Lektro-Vend Corp., supra, 97 S.Ct. at 2902 (Stevens, J., dissenting) (emphasis added).

Both because the First Amendment "immunity" does not extend to litigation purposefully brought in bad faith to interfere artificially with the competitive process and because Ethicon has failed to raise its immunity issues at any stage of this long litigation prior to its unsuccessful motion for rehearing before the Ninth Circuit, it is, we submit, inappropriate for this Court to consider those issues at this time.

C. In 1968, Ethicon Dropped Its Prosecution of the Orsini Patent Because It Was, According to Its Trial Counsel, a Far Weaker Patent Than the Gerard Patent. The Trial Judge Erroneously Required the Validity of the Orsini Patent to Be Litigated in the Antitrust Case on Narrow Grounds and the Jury's Determination of Its Validity Has No Legal Effect.

Ethicon claims that it is entitled to a monopoly based on the Orsini patent and that its invidious conduct to exclude Handgards through enforcement of the Gerard patent, which it knew to be invalid, is thus excused. During the patent case which preceded this antitrust action, Ethicon initially asserted claims of infringement based upon the Orsini patent. But in 1968, shortly after the trial of the patent case began, Ethicon withdrew the claims based on the Orsini patent and offered Handgards a covenant not to sue because, according to Ethicon's counsel, that patent was weak.

On the eve of trial of the antitrust case, the trial judge, because he believed it equitable, required that plaintiff prove the invalidity of the Orsini patent *to the* extent that plaintiff sought to show that the prosecution of the Orsini patent (until it was abandoned) was also in bad faith. We believe that requirement to have been erroneously imposed on Handgards. But in any event, the jury's determination that the Orsini patent was not invalid on the basis of the prior disclosures of another patent has no legal effect because the judgment below could have been supported solely on the basis of the bad faith prosecution of the Gerard

patent, which was the prosecution that in fact caused Handgards to be excluded from the market. The Orsini patent is, in short, a red herring because it was the wrongful Gerard suit which inflicted the damages suffered by Handgards. Consequently, for Ethicon to attempt to use the existence of the Orsini patent as a protective shield makes no more sense, and has no more merit, than for a price fixer to claim as a defense that increased material costs would have necessitated price increases just as high as his conspiracy. Indeed, when Ethicon presented the argument it now makes to this Court in support of its post-trial motions, Judge Orrick recognized that the determination regarding the Orsini patent was meaningless: "[I]n the Court's view, the finding of bad faith prosecution [of the Gerard patent] alone is sufficient to support the verdict." *Handgards, Inc. v. Johnson & Johnson,* [1976-2] Trade Reg. Rep. (CCH) ¶ 61,138 at 70,143.

III

Conclusion.

For all the reasons set forth herein, we respectfully submit that the cross-petition for certiorari should be denied. Further, should the Court deem any one of the questions raised by the cross-petition worthy of its attention, we respectfully submit that it should grant certiorari as to the questions raised in Handgards' petition as well, for only in that manner can the Court fairly determine whether the Ninth Circuit went too far, as Handgards asserts, or not far enough, as Ethicon

contends, in erecting barriers to antitrust claims founded in conscious misuse of patents and of the judicial process for enforcing them.

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Respectfully submitted,

BLECHER, COLLINS & HOECKER,
MAXWELL M. BLECHER,
CONSUELO S. WOODHEAD,

KENDRICK, NETTER & BENNETT,
JOEL R. BENNETT,
NANCY MILLER BENETT,
By MAXWELL M. BLECHER,

Attorneys for Petitioner
Handgards, Inc.